

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name North Adams-Jerome Public Schools	County Hillsdale
Fiscal Year End June 30, 2006	Opinion Date August 18, 2006	Date Audit Report Submitted to State October 17, 2006	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

- YES NO Check each applicable box below. (See instructions for further detail.)
- ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
 - ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
 - ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
 - ☒ ☐ The local unit has adopted a budget for all required funds.
 - ☒ ☐ A public hearing on the budget was held in accordance with State statute.
 - ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
 - ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
 - ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
 - ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
 - ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
 - ☒ ☐ The local unit is free of repeated comments from previous years.
 - ☒ ☐ The audit opinion is UNQUALIFIED.
 - ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
 - ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
 - ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Osbourne, March, Condon & Co., P.C.		Telephone Number 517-439-9331	
Street Address 184 W. Carleton Road		City Hillsdale	State MI
		Zip 49252	
Authorizing CPA Signature Donna J. Hecht, CPA		Printed Name Donna J. Hecht, CPA	
		License Number 1101025151	

NORTH ADAMS-JEROME PUBLIC SCHOOLS

**FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORT**

YEAR ENDED JUNE 30, 2006

NORTH ADAMS -JEROME PUBLIC SCHOOLS

NORTH ADAMS , MICHIGAN

BOARD OF EDUCATION

JUNE 30, 2006

Owen Glei	President
Rod Cortright	Vice-President
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NORTH ADAMS-JEROME PUBLIC SCHOOLS

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JUNE 30, 2006

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INDEPENDENT AUDITOR'S REPORT

Board of Education
North Adams-Jerome Public Schools
North Adams, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of North Adams-Jerome Public Schools, North Adams, Michigan, as of and for the year ended June 30, 2006, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of North Adams-Jerome Public Schools as of June 30, 2006, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards* , we have also issued our report dated August 18, 2006, on our consideration of the School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages iii through viii and page 18 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the method of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the North Adams-Jerome Public Schools' basic financial statements. The additional information on pages 19 - 20 is presented for purposes of additional analysis and is not a required part of the basic financial statements. This additional information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Certified Public Accountants

Hillsdale, Michigan
August 18, 2006

North Adams -Jerome Public Schools

Management's Discussion and Analysis Year Ended June 30, 2006

Our discussion and analysis of North Adams -Jerome Public Schools' financial performance provides an overview of the School District's financial activities for the fiscal year ended June 30, 2006.

The management's discussion and analysis is provided at the beginning of the audit to provide, in layman's terms, the current position of the School District's financial statements and other supplemental information that presents all the School District's revenues and expenditures by program for the General Fund, Food Service Fund, Athletics Fund, Capital Projects Funds, and Debt Retirement Funds.

FINANCIAL HIGHLIGHTS

The overall condition of all funds and instructional activities remains sound for the School District. All goals related to the financial activities have been met, and if revenue and expenditure patterns can be maintained, sufficient resources for next year will be available.

Total spending for all of our programs was \$4,589,635 for the year. Program revenues (charges for services, operating grants and contributions) totaled \$518,369, leaving a net unfunded cost for the year of \$4,071,266. The School District's property taxes, state aid, grants and contributions and other revenue sources were not sufficient to cover this total unfunded cost.

USING THIS ANNUAL REPORT

The School District's annual report consists of a series of financial statements that show information for the School District as a whole, its funds, and its fiduciary responsibilities. The Statement of Net Assets and the Statement of Activities (pages 1 - 2), provide information about the activities of the School District as a whole and present a longer-term view of the School District's finances. Our fund financial statements start on page 3. Our governmental activities statements tell how we financed our services in the short-term, as well as what remains for future spending. Fund financial statements report the School District's operations in more detail than governmental - wide financial statements by providing information about the School District's most significant funds. The remaining statement provides information about activities for which the School District acts solely as an agent for the benefit of student groups.

North Adams -Jerome Public Schools

Management's Discussion and Analysis

Year Ended June 30, 2006

Reporting the School District as a Whole

One of the most important questions asked about the School District is, "Is the School District as a whole better off or worse off financially as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities, which appear first in the School District's financial statements, report information on the School District as a whole and its activities in a way that helps answer this question. We prepared these statements to include all assets and liabilities, using the *accrual basis of accounting*, which is similar to the accounting used by most private - sector companies. This basis of accounting takes into account all of the current year's revenue and expenses, regardless of when cash is received or paid.

These two statements report the School District's *net assets* – the difference between assets and liabilities, as reported in the statement of Net Assets – as one way to measure the School District's financial health or *financial position*. Over time, *increases* or *decreases* in the School District's net assets – as reported in the Statement of Activities – are one indicator of whether its *financial health* is improving or deteriorating. The relationship between revenues and expenses indicates the School District's *operating results*. However, the School District's goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other non-financial factors, such as the quality of the education provided and the safety of the school to assess the *overall health* of the School District.

Reporting the School District's Most Significant Funds

The School District's Fund Financial Statements, which begin on page 3, provide detailed information about the School District's most significant funds – not the School District as a whole. Some funds are required to be established by State law and by bond covenants. However, the School District establishes other funds to help it control and manage money for particular purposes (like the Food Service Fund) or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money (like the Capital Projects Fund).

Governmental fund reporting focuses on showing how money flows into and out of the funds and the balances left at year-end that are available for spending in future periods. They are reported using the accounting method called *modified accrual* accounting, which measures cash and all other *financial assets* that can readily be converted to cash. The governmental fund statements provide a detailed *short-term* view of the School District's operations and the services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the School District's programs. We describe the relationship (or differences) between *governmental activities* (reported in the Statement of Net Assets and the Statement of Activities) and *governmental funds* in reconciliations on pages 4 and 6.

The School District as Trustee

The School District is the trustee, or agent, for its student activity funds. All of the School District's agent activities are reported in the "Statement of Fiduciary Net Assets" on page 7. We exclude these activities from the School District's other financial statements because the School District cannot use these assets to finance its operations. The School District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

North Adams -Jerome Public Schools

Management's Discussion and Analysis Year Ended June 30, 2006

The School District as a Whole

The School District's net assets were \$1,088,966 at June 30, 2006. Of this amount, \$135,264 was unrestricted. Restricted net assets are reported separately to show legal constraints that limit the School District's ability to use those assets for day-to-day operations. Below we focus our attention on the net assets (TABLE 1) and change in net assets (TABLE 2) of the School District's governmental activities.

TABLE 1 – Net Assets

June 30, 2006 and 2005

	2006	2005
Assets		
Current Assets	\$ 994,680	\$ 1,047,698
Noncurrent Assets	<u>2,609,204</u>	<u>2,654,998</u>
Total Assets	<u>\$ 3,603,884</u>	<u>\$ 3,702,696</u>
Liabilities		
Current Liabilities	\$ 752,681	\$ 676,109
Noncurrent Liabilities	<u>1,762,237</u>	<u>1,915,166</u>
Total Liabilities	<u>\$ 2,514,918</u>	<u>\$ 2,591,275</u>
Net Assets		
Invested in Capital Assets -Net of related debt	\$ 703,307	\$ 568,367
Restricted	250,395	235,056
Unrestricted	<u>135,264</u>	<u>307,998</u>
Total Net Assets	<u>\$ 1,088,966</u>	<u>\$ 1,111,421</u>
Total Liabilities and Net Assets	<u>\$ 3,603,884</u>	<u>\$ 3,702,696</u>

The \$135,264 in unrestricted net assets of governmental activities represents the accumulated results of all past years' operations. It means that if we had to pay off all our bills *today*, including all of our non-capital liabilities (compensated absences and long-term debt), we would have \$135,264 left.

North Adams -Jerome Public Schools

Management's Discussion and Analysis Year Ended June 30, 2006

The School District as a Whole (concluded)

TABLE 2 – Changes in Net Assets

Year ended June 30, 2006 and 2005

	2006	2005
Program Revenue		
Charges for Services	\$ 129,343	\$ 142,551
Operating Grants and Contributions	389,026	327,994
General Revenue		
Property Taxes -general purposes	329,194	270,379
Property Taxes -debt service	278,703	299,489
State School Aid	3,418,210	3,438,679
Grants and contributions	11,334	26,477
Unrestricted Investment Earnings	11,370	5,989
Miscellaneous		<u>7,691</u>
Total Revenue	<u>\$ 4,567,180</u>	<u>\$ 4,519,249</u>
Expenses		
Instruction	\$ 2,745,255	\$ 2,497,608
Support Services	1,279,906	1,272,978
Food Service	197,348	203,403
Athletics	179,215	184,606
Depreciation – Unallocated	97,857	104,685
Interest on Long -Term Debt	<u>90,054</u>	<u>96,579</u>
Total Expenses	<u>\$ 4,589,635</u>	<u>\$ 4,359,859</u>
INCREASE (DECREASE) IN NET ASSETS	<u>\$ (22,455)</u>	<u>\$ 159,390</u>

As reported in the Statement of Activities on page 2, the cost of all of our governmental activities this year was \$4,589,635. However, the amount that our taxpayers ultimately financed for these activities through School property taxes was only \$607,897, because the remainder of the cost was paid by grants and state aid revenue.

North Adams -Jerome Public Schools

Management's Discussion and Analysis Year Ended June 30, 2006

MAJOR GOVERNMENTAL FUNDS BUDGETING AND OPERATING HIGHLIGHTS

The School District's budgets are prepared to Michigan law. The most significant budgeted fund is the General Fund. During the fiscal year ended June 30, 2006, the School District amended the General Fund Budget once; this was not a significant change.

General Fund

Actual revenue of the General Fund was \$4,090,724 , above the original budget estimates of \$4,044,820, and the final amended budget of \$4,067,099 . The differences between the actual revenues and the original and final budget were due to budgeted State Aid payments of \$6,650 to the actual of \$6,700 per student. The reason for this difference is that for the past two fiscal years the State of Michigan has made reductions to the per student allocation payments. The difference was also attributed to a small increase in the overall student population.

The actual expenditures of the General Fund were \$4,184,023 , above original budget estimates of \$4,035,471 , and the final amended budget of \$4,130,156 . The differences between the actual expenditures and the original and final budgets were due to the transfer to the Food Service fund was higher than expected, and accounting for lease of new computers.

CAPITAL ASSET AND DEBT ADMINISTRATION

At the end of fiscal year 2006, the School District had \$5,056,420 invested in land and buildings, furniture and equipment, vehicles, buses, and construction in progress. We have estimated that these assets have depreciated by \$2,447,216 through June 30, 2006; therefore, we currently have net book value of \$2,609,204. Total additions for the year were \$52,063 , the majority of which were for the replacement of two boilers in the elementary . Capital assets at year-end were as follows:

Land	\$ 12,000
Equipment & Vehicles	814,505
Buildings	4,229,915
Less: Accumulated Depreciation	<u>(2,447,216)</u>
Total Capital Assets, net depreciation	<u>\$ 2,609,204</u>

North Adams -Jerome Public Schools

Management's Discussion and Analysis Year Ended June 30, 2006

CAPITAL ASSET AND DEBT ADMINISTRATION (CONCLUDED)

At June 30, 2006, the School District had the following in bonds and notes outstanding:

General Obligation Bonds	
1998 Refunding Bonds	\$ 1,750,000
2006 Building and Site Bonds	150,000
Capital Lease Agreement	
Computer lease	32,171
Installment Purchase Agreement	
Tractor Installment Loan	<u>5,897</u>
Total Long-Term Debt	<u>\$1,938,068</u>

FACTORS BEARING ON THE DISTRICT'S FUTURE

The following factors were considered in preparing the School District's budget for the 2006-2005 fiscal year:

- | Enrollment for the 2005-2006 school year was 543 students. This was another decrease in students as compared to the 2004-2005 school year. Enrollment for the 2004-2005 school year was 554 students. Future enrollment will continue to be affected by Schools of Choice, the local economy, and other factors .
- | Contracts for the teachers and support staff unions will have to be negotiated. Both contracts expired on June 30, 2006. The support staff contract has been settled in July while the teachers contract was settled in September .
- | State aid payments for the 2005-2006 school year saw the first increase in two years. The state aid payment was set at \$6,875 while we budgeted for \$6,825. The near future is uncertain as well, for the State of Michigan has yet to settle the per pupil State Aid allotments for the 2006-2007 school year.

CONTACTING THE SCHOOL DISTRICT FINANCIAL MANAGEMENT

This report is designed to give an overview of the financial conditions of the North Adams-Jerome Public Schools. If you have any questions about this report or need further information, please contact the Central Office at: 4555 Knowles Road; North Adams, MI 49262; Telephone (517) 287-4263.

NORTH ADAMS-JEROME PUBLIC SCHOOLS

STATEMENT OF NET ASSETS

JUNE 30, 2006

	TOTAL GOVERNMENTAL FUNDS
ASSETS	
Current Assets	
Cash and deposits	\$ 330,609
Due from agency account	8,431
Due from other governmental units	653,872
Inventory	<u>1,768</u>
Total Current Assets	<u>\$ 994,680</u>
Noncurrent Assets	
Capital assets	\$ 5,056,420
Less: accumulated depreciation	<u>2,447,216</u>
Total Noncurrent Assets	<u>\$ 2,609,204</u>
TOTAL ASSETS	<u><u>\$ 3,603,884</u></u>
LIABILITIES AND NET ASSETS	
Current Liabilities	
Accrued interest	\$ 14,000
Deferred revenue	9,900
Long-term debt, current portion	188,305
Accrued salaries and payroll taxes	477,149
Short term notes	<u>63,327</u>
Total Current Liabilities	<u>\$ 752,681</u>
Noncurrent Liabilities	
Bonds and installment purchases	\$ 1,749,763
Compensated absences	<u>12,474</u>
Total Noncurrent Liabilities	<u>\$ 1,762,237</u>
Total Liabilities	<u>\$ 2,514,918</u>
Net Assets	
Invested in capital assets, net of related debt	\$ 703,307
Restricted for debt service	250,395
Unrestricted	<u>135,264</u>
Total Net Assets	<u>\$ 1,088,966</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 3,603,884</u></u>

The accompanying notes are an integral part of these financial statements.

NORTH ADAMS-JEROME PUBLIC SCHOOLS

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2006

		PROGRAM REVENUES		GOVERNMENTAL ACTIVITIES
				NET (EXPENSE)
	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS	REVENUE AND CHANGES IN NET ASSETS
GOVERNMENTAL ACTIVITIES				
Instruction				
Basic programs	\$ 2,208,277	\$ 7,044	\$ 69,051	\$ (2,132,182)
Added needs	536,978	400	197,363	(339,215)
Supporting services				
Pupil services	109,140			(109,140)
Instructional staff	106,736		6,710	(100,026)
General administration	162,437			(162,437)
School administration	299,793	105		(299,688)
Business services	50,492			(50,492)
Operations and maintenance	315,386	460		(314,926)
Transportation	235,697	115	4,184	(231,398)
Other support services	225		225	
Food services	197,348	85,289	102,680	(9,379)
Athletics	179,215	35,930	8,813	(134,472)
Interest and other debt expense	90,054			(90,054)
Depreciation (unallocated)	97,857			(97,857)
TOTAL GOVERNMENTAL ACTIVITIES	\$ 4,589,635	\$ 129,343	\$ 389,026	\$ (4,071,266)
GENERAL REVENUES				
Property taxes, levied for general operations				\$ 329,194
Property taxes, levied for debt service				278,703
State of Michigan aid, unrestricted				3,418,210
Grants and contributions				11,334
Interest income				11,370
				<u>\$ 4,048,811</u>
				\$ (22,455)
NET ASSETS, BEGINNING OF YEAR				<u>1,111,421</u>
NET ASSETS, END OF YEAR				<u><u>\$ 1,088,966</u></u>

The accompanying notes are an integral part of these financial statements.

NORTH ADAMS-JEROME PUBLIC SCHOOLS

BALANCE SHEET - GOVERNMENTAL FUNDS

JUNE 30, 2006

	GENERAL	1998 DEBT SERVICE	OTHER NON MAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
ASSETS				
Cash and deposits	\$ 45,465	\$ 250,395	\$ 34,749	\$ 330,609
Due from agency fund	6,500			6,500
Due from other funds	11,507		1,931	13,438
Due from other governmental units	651,584		2,288	653,872
Inventory			1,764	1,764
TOTAL ASSETS	<u>\$ 715,056</u>	<u>\$ 250,395</u>	<u>\$ 40,732</u>	<u>\$ 1,006,183</u>
LIABILITIES AND FUND BALANCES				
Liabilities				
Accrued salaries and payroll taxes	\$ 477,149	\$	\$	\$ 477,149
Deferred revenue	9,900			9,900
Due to other funds			11,507	11,507
Short term notes	63,323			63,323
Total Liabilities	<u>\$ 550,372</u>	<u>\$</u>	<u>\$ 11,507</u>	<u>\$ 561,879</u>
Fund Balances				
Reserved for debt service	\$	\$ 250,395	\$	\$ 250,395
Reserved for inventory			1,766	1,766
Unreserved, undesignated	164,684		27,459	192,143
Total Fund Balances	<u>\$ 164,684</u>	<u>\$ 250,395</u>	<u>\$ 29,225</u>	<u>\$ 444,304</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 715,056</u>	<u>\$ 250,395</u>	<u>\$ 40,732</u>	<u>\$ 1,006,183</u>

The accompanying notes are an integral part of these financial statements.

NORTH ADAMS-JEROME PUBLIC SCHOOLS

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
WITH THE STATEMENT OF NET ASSETS

YEAR ENDED JUNE 30, 2006

TOTAL GOVERNMENTAL FUND BALANCES	\$ 444,304
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources,
and are not reported in the funds.

The cost of the capital assets is	\$ 5,056,420
Accumulated depreciation is	<u>(2,447,216)</u>

2,609,204

Certain liabilities are not due and payable in the current period and
are not reported in the funds.

Bonds payable	(1,900,000)
Installment purchases	(38,068)
Accrued interest	(14,000)
Compensated absences	<u>(12,474)</u>

NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u><u>\$ 1,088,966</u></u>
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The accompanying notes are an integral part of these financial statements.

NORTH ADAMS-JEROME PUBLIC SCHOOLS

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS

YEAR ENDED JUNE 30, 2006

	GENERAL	1998 DEBT SERVICE	OTHER NON MAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
REVENUES				
Local sources	\$ 373,518	\$ 227,243	\$ 187,882	\$ 788,643
State sources	3,573,706		16,029	3,589,735
Federal sources	102,150		86,651	188,801
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
TOTAL REVENUES	\$ 4,049,374	\$ 227,243	\$ 290,562	\$ 4,567,179
EXPENDITURES				
Instruction				
Basic programs	\$ 2,205,068	\$	\$	\$ 2,205,068
Added needs	536,978			536,978
Supporting services				
Pupil services	109,140			109,140
Instructional staff	106,736			106,736
General administration	162,437			162,437
School administration	299,793			299,793
Business services	50,492			50,492
Operations and maintenance	321,120			321,120
Transportation	235,697			235,697
Capital outlay			52,063	52,063
Other support services	225			225
Food service			197,348	197,348
Athletics			179,215	179,215
Debt services				
Principal		125,000	50,000	175,000
Interest		86,904	4,450	91,354
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
TOTAL EXPENDITURES	\$ 4,027,686	\$ 211,904	\$ 483,076	\$ 4,722,666
REVENUES OVER (UNDER) EXPENDITURES	\$ 21,688	\$ 15,339	\$ (192,514)	\$ (155,487)
OTHER FINANCING SOURCES (USES)				
Operating transfers in	\$	\$	\$ 152,375	\$ 152,375
Operating transfers out	(147,157)		(5,218)	(152,375)
Capital lease payments	(9,180)			(9,180)
Capital lease proceeds	41,350			41,350
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
TOTAL OTHER FINANCING SOURCES (USES)	\$ (114,987)	\$	\$ 147,157	\$ 32,170
NET CHANGE IN FUND BALANCES	\$ (93,299)	\$ 15,339	\$ (45,357)	\$ (123,317)
FUND BALANCES - BEGINNING	257,983	235,056	74,582	567,621
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
FUND BALANCES - ENDING	\$ 164,684	\$ 250,395	\$ 29,225	\$ 444,304
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

The accompanying notes are an integral part of these financial statements.

NORTH ADAMS-JEROME PUBLIC SCHOOLS

RECONCILIATION OF THE CHANGE IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2006

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUND TYPES \$ (123,317)

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Depreciation expense	\$ (97,857)	
Capital outlay	<u>52,063</u>	
Excess of depreciation expense over capital outlay		(45,794)

Repayment of long-term debt is reported as an expenditure in governmental funds, but it reduces long-term liabilities in the statement of net assets and does not affect the statement of activities.

In the current year, these amounts consist of:

Repayment of long-term obligations	189,915
------------------------------------	---------

In the governmental funds, the financing for capital leases is recorded as revenue, whereas, in the statement of activities, only the lease payments are recorded. Thus, the change in net assets differs from the change in fund balances by the amount of the capital lease financing.

(41,350)

Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:

Increase in accrued compensated absences	\$ (3,209)	
Decrease in accrued interest payable on long-term debt	<u>1,300</u>	
		<u>(1,909)</u>

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u>\$ (22,455)</u>
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The accompanying notes are an integral part of these financial statements.

NORTH ADAMS-JEROME PUBLIC SCHOOLS

STATEMENT OF FIDUCIARY NET ASSETS

JUNE 30, 2006

	AGENCY FUND - STUDENT ACTIVITIES
ASSETS	
Cash and deposits	<u>\$ 32,364</u>
LIABILITIES	
Due to General Fund	\$ 6,500
Due to Athletic Fund	1,931
Due to student groups	<u> 23,933</u>
	<u>\$ 32,364</u>

The accompanying notes are an integral part of these financial statements.

NORTH ADAMS -JEROME PUBLIC SCHOOLS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

North Adams -Jerome Public Schools is a K-12 public school district with an enrollment of approximately 546 students. The School District operates under a locally elected seven-member Board of Education, and a superintendent heads the administrative staff. The School District's boundaries encompass parts of Hillsdale County and Jackson County in the State of Michigan.

The accounting policies of North Adams -Jerome Public Schools conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations).

The following is a summary of significant accounting policies used by North Adams -Jerome Public Schools.

REPORTING ENTITY

A reporting entity is comprised of the primary government, component units, and other organizations that are included to ensure the financial statements are not misleading. The primary government of the School District consists of all funds, departments, boards, and agencies that are not legally separate from the School District.

Component units are legally separate organizations for which the School District is financially accountable. Component units may also include organizations that are fiscally dependent on the School District in that the School District approves their budget, the issuance of their debt, or the levying of taxes. The School District has no component units.

GOVERNMENT -WIDE AND FUND FINANCIAL STATEMENTS

Government -Wide Financial Statements

The statement of net assets and the statement of activities (the government -wide statements) display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. Interfund activity has been eliminated in the preparation of the government -wide financial statements.

The government -wide and fiduciary fund financial statements are presented using the economic resources measurement focus, similar to that used by business enterprises or not-for-profit organizations. Because another measurement focus is used in the governmental fund financial statements, reconciliations are provided that explain the differences in detail.

The statement of activities presents the direct functional expenses of the School District and the program revenues that support them. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Property taxes, State Aid, and other items not properly included among program revenues are reported as general revenues. This includes all taxes, interest, and unrestricted State aid payments and shows how governmental functions are either self-financing or supported by the general revenues of the School District.

NORTH ADAMS -JEROME PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2006

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

GOVERNMENT -WIDE AND FUND FINANCIAL STATEMENTS (CONCLUDED)

Fund Financial Statements

The School District uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. The School District utilized governmental and fiduciary funds.

The governmental fund financial statements present the School District's individual major funds and aggregated nonmajor funds. Separate columns are shown for the major funds on the balance sheet and statement of revenues, expenditures, and changes in fund balances. Nonmajor funds are combined and shown in a single column. The fiduciary funds are reported by type.

The major funds of the School District are:

General Fund - The General Fund is used to account for money or other resources provided to the School District to support the educational programs and general operations of the School District.

1998 Debt Service Fund - The 1998 Debt Service Fund is used to account for special assessments and debt service associated with the 1998 Refunding Bonds.

MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

The government -wide statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned, and expenses are recorded when the liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Deferred revenue is recorded when resources are received by the School District before it has legal claim to them, such as when grant monies are received prior to the incurrence of qualified expenditures. Fiduciary funds also use the accrual basis of accounting.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is to be collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenue to be available if it is collected within sixty days of the end of the current fiscal period. Expenditures generally are recorded when the liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Under the modified accrual basis, property taxes, interest, and grants are considered to be both measurable and available at fiscal year-end. Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue. The fair value of donated commodities used during the year is reported in the operating statement as an expense with a like amount reported as donated commodities revenue. Unused donated commodities are reported as inventory.

NORTH ADAMS -JEROME PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2006

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

OTHER ACCOUNTING POLICIES

Bank Deposits - Cash and deposits are considered to be cash on hand, demand deposits, and short-term investments with maturity of three months or less.

Inventories - Food service inventories are stated at cost. Federal government food commodity inventories are stated at their assigned U.S.D.A. value. All inventories are charged to expenditures when consumed.

Capital Assets - General Capital Assets result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government -wide statement of net assets but are not reported in the fund financial statements.

All Capital Assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of \$1,000. The School District does not possess any infrastructure. Improvements are capitalized, and the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful life of the related assets. Depreciation is computed using the straight -line method over the following useful lives:

<u>Description</u>	<u>Estimated Life</u>
Buildings & Improvements	20 - 50 years
Equipment & Vehicles	5 - 20 years

Restricted Resources - It is the School District's policy to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

Compensated Absences (Personal Leave) - It is the School District's policy to permit employees to accumulate earned but unused personal leave benefits. Personal leave is accrued when incurred in the government -wide financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignation, retirement, or death.

Long-Term Obligations - In the government -wide financial statements, all payables, accrued liabilities and long-term obligations are reported as liabilities in the statement of net assets. Bonds payable are recorded net of the applicable bond premium or discount. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources, while discounts are reported as other financing uses. Issuance costs are reported as debt retirement expenditures.

Fund Balance - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

NORTH ADAMS -JEROME PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2006

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONCLUDED)

Interfund Activity – Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. Interfund receivables, payables, and operating transfers of governmental funds have been eliminated in the government-wide financial statement presentation.

Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

NOTE 2: STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information – The budgetary process is prescribed by provisions of the State of Michigan Uniform Budgeting Act and entails the preparation of budgetary documents within an established timetable. The level of budgetary control has been established by the Board of Education at the function level. Any budgetary modifications may only be made by resolution of the Board of Education. All annual appropriations lapse at fiscal year end.

The School District follows these procedures in establishing the budgets for the individual funds as reflected in the financial statements:

- 1) Prior to June 30, the Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1.
- 2) A public hearing is conducted during June to obtain taxpayer comments.
- 3) Prior to June 30, the budget is legally enacted through passage of a resolution.
- 4) For purposes of meeting emergency needs of the School District, transfer of appropriations may be made by the authorization of the Superintendent. Such transfers must be approved by the Board of Education at its next regularly scheduled meeting.
- 5) The School Superintendent is charged with general supervision of the budget and shall hold the department heads responsible for performance of their responsibilities.
- 6) During the year the budget is monitored, and amendments to the budget resolution are made when deemed necessary.

During the year, the School District was in violation of the Uniform Budgeting Act incurring expenditures in certain budgeted funds which were in excess of the amounts appropriated as follows:

<u>Fund</u>	<u>Description</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
General Fund	Instruction Basic -Program	\$2,150,841	\$2,205,068	\$ 54,227
General Fund	Support Services:			
	Instructional staff	101,615	106,736	5,121
	Operations & maintenance	319,169	321,120	1,951
	Other support services		225	225

NORTH ADAMS -JEROME PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2006

NOTE 3: CASH AND DEPOSITS

Michigan Compiled Laws, Section 129.91, authorizes the School District to deposit and invest in the accounts of Federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligations; repurchase agreements; bankers' acceptance of United States banks; commercial paper rated by two standard rating agencies within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan. The School District's deposits and investments are in accordance with statutory authority.

The Federal Deposit Insurance Corporation (FDIC) provides protection of the School District's deposits. At June 30, 2006, the carrying amount of the School District's deposits was \$362,973 and the bank balance was \$471,737. Of the bank balance, \$103,620 was covered by federal depository insurance and \$368,117 was uninsured. As of June 30, 2006, the School District's cash and deposits were reported in the basic financial statements in the following categories:

	<u>Governmental Activities</u>	<u>Fiduciary Funds</u>	<u>Total</u>
Cash and deposits	<u>\$ 330,609</u>	<u>\$ 32,364</u>	<u>\$ 362,973</u>

NOTE 4: INTERFUND RECEIVABLES AND PAYABLES

The following schedule details interfund receivables and payables related to the School District at June 30, 2006:

Due to General Fund from:	
Food Service	\$ 5,000
2004 Debt Service	4,576
Athletics	<u>1,931</u>
	<u>\$ 11,507</u>

Amounts appearing as interfund payables and receivables arise from two types of transactions. One type of transaction is where a fund will pay for a good or service that at least a portion of the benefit belongs to another fund. The second type of transaction is where one fund provides a good or service, or is otherwise obligated to another fund. Balances at the end of the year are for transfers that have not cleared as of the balance sheet date.

NORTH ADAMS -JEROME PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2006

NOTE 5: INTERFUND TRANSFERS

Permanent reallocation of resources between funds of the School District to use for operating are classified as interfund transfers. For the purpose of the statement of activities, all interfund transfers between individual governmental funds have been eliminated.

	<u>Transfers in</u>	<u>Transfers out</u>
Athletics	\$ 134,472	\$
Food Service	12,575	
2004 Debt Service	110	
2005 Capital Projects	5,218	
2003 Capital Projects		5,218
General Fund	<u> </u>	<u>147,157</u>
	<u>\$ 152,375</u>	<u>\$ 152,375</u>

NOTE 6: CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2006, was as follows:

	<u>Balance 7/1/05</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance 6/30/06</u>
Capital assets not being depreciated:				
Land	\$ 12,000	\$	\$	\$ 12,000
Capital assets being depreciated:				
Buildings	\$ 4,229,915	\$	\$	\$ 4,229,915
Equipment & Vehicles	762,442	52,063		814,505
Subtotal	<u>\$ 4,992,357</u>	<u>\$ 52,063</u>	<u>\$</u>	<u>\$ 5,044,420</u>
Less accumulated depreciation for:				
Buildings	\$ 1,730,880	\$ 63,095	\$	\$ 1,793,975
Equipment & Vehicles	618,479	34,762		653,241
Subtotal	<u>\$ 2,349,359</u>	<u>\$ 97,857</u>	<u>\$</u>	<u>\$ 2,447,216</u>
Total capital assets, net	<u>\$ 2,654,998</u>	<u>\$ (45,794)</u>	<u>\$</u>	<u>\$ 2,609,204</u>

Depreciation expense was not charged to activities as the School District considers its assets to impact multiple activities and allocation is not practical.

NOTE 7: SHORT -TERM NOTES

In August, 2005, the School District issued a short-term State School Aid Anticipation Note in the amount of \$475,000 for the purpose of funding operating expenditures until the 2006 State Aid payments resumed. This short-term note, with an interest rate of 4.09%, has a net outstanding balance of \$63,327 at June 30, 2006, and is reported in the General Fund under the caption short-term notes payable. The outstanding balance is due July 21, 2006.

NORTH ADAMS -JEROME PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2006

NOTE 8: LONG-TERM DEBT

The School District issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the government. Contractual agreements and installment purchase agreements are also general obligations of the government.

Bonds Payable

In February 1998, the School District issued \$2,430,000 in General Obligation Bonds with an average interest rate of 4.79% to advance refund \$2,260,000 of callable 1991 Building and Site Bonds with an average interest rate of 6.56%. The bonds are dated February 1998 and require annual payments of principal and semi-annual payments of interest. The interest rates range from 4.15% to 4.875% per annum. The principal balance at June 30, 2006 was \$1,750,000. These bonds mature May 1, 2020.

In February 2004, the School District issued general obligation – limited tax bonds for the purpose of furnishing and equipping an addition to the school facility of new locker and weight rooms. The bonds are dated June 1, 2004, in the aggregate amount of \$250,000 and required annual payments of principal and semi-annual payments of interest. The interest rate is 2.2% per annum. The principal balance at June 30, 2006 was \$150,000. These bonds mature May 1, 2009.

Installment loans

The School District has financed the purchase of a John Deer Tractor through an installment purchase agreement with a local bank.

The School District has entered into a five year capital lease of 40 computers through a leasing company.

Bond and contractual obligation activity is summarized as follows:

	Balance 6/30/05	Increases	Payments/ Reductions	Balance 6/30/06
General Obligation Bonds				
1998 Refunding Bonds	\$ 1,875,000	\$	\$ 125,000	\$ 1,750,000
2004 Building & Site Bonds	200,000		50,000	150,000
Tractor Installment Loan	11,631		5,734	5,897
Capital Computer Lease		41,350	9,179	32,171
	<u>\$ 2,086,631</u>	<u>\$ 41,350</u>	<u>\$ 189,913</u>	<u>\$ 1,938,068</u>

Interest rates, maturity dates, and current portions for the above obligations are as follows:

	Interest Rate(s)	Maturity Date	Current Portion
1998 Refunding Bonds	4.15 - 4.875%	11/01/2020	\$ 125,000
2004 Building & Site Bonds	2.20%	05/01/2009	50,000
Tractor Installment Purchase	2.84%	11/20/2006	5,897
Capital Computer Lease		01/01/2010	7,408
			<u>\$ 188,305</u>

NORTH ADAMS -JEROME PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2006

NOTE 8: LONG-TERM DEBT (CONCLUDED)

Annual debt service requirements to maturity for the above obligations are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>
2007	\$ 188,305	\$ 86,269
2008	182,817	79,282
2009	183,246	72,377
2010	133,700	65,448
2011	125,000	60,010
2012 – 2016	625,000	212,000
2017 – 2020	<u>500,000</u>	<u>60,938</u>
	<u>\$ 1,938,068</u>	<u>\$ 636,324</u>

NOTE 9: COMPENSATED ABSENCES

Vested or accumulated Personal days that are expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it. The entire compensated absence liability is reported on the government-wide financial statements.

Personal days are earned by all employees at the rate of 12 days per year, and a maximum of 130 days can be accumulated. After 15 years of employment with the School District, upon termination of employment, 100% of accrued personal days will be paid at the rate of \$10 per day.

NOTE 10: PROPERTY TAXES

The School District levies its property taxes on December 1st on the taxable valuation of property located in the School District as of the preceding December 31st. Various municipalities collect the property taxes and remit them to the School District through February. The County purchases the delinquent real property taxes of the School District. The delinquent personal property taxes continue to be collected by the municipalities and recorded as revenue as they are collected. The total levy for 2005 was 18.000 mills on non-homestead valuation for operational purposes and 3.3366 mills on total valuation for debt retirement. The 2005 non-homestead taxable valuation of the School District totaled approximately \$18,000,000.

NOTE 11: DEFINED BENEFIT PENSION PLAN

The School District participates in the Michigan Public School Employees' Retirement System (MPERS), a statewide, cost-sharing, multiple-employer defined benefit public employee retirement system governed by the State of Michigan that covers substantially all employees of the School District. The MPERS provides retirement, survivor, and disability benefits to plan members and their beneficiaries. The MPERS issues a publicly available financial report that includes financial statements and required supplementary information for the MPERS. That report may be obtained by writing to the MPERS at 7150 Harris Drive, PO Box 30673, Lansing, MI 48909-8103.

NORTH ADAMS -JEROME PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2006

NOTE 11: DEFINED BENEFIT PENSION PLAN (CONCLUDED)

Funding Policy

Employer contributions to the MPSERS result from the implementing effects of the School Finance Reform Act. Under these procedures, each school district is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The pension benefit rate totals 14.87 percent for the period July 1, 2005 through September 30, 2005, and 16.34 percent for the remainder of the year. The School District's payroll for the year ended June 30, 2006, for employees covered by MPSERS, was approximately \$2,504,000. Basic plan members make no contributions, but contribute to a member investment plan (MIP) at rates ranging from 3 percent to 4.3 percent of gross wages. The School District's contributions to the MPSERS pension plan for the year ended June 30, 2006 was approximately \$385,000.

Post-employment benefits

Under the MPSERS Act, all retirees participating in the MPSERS pension plan have the option of continuing health, dental, and vision coverage. Retirees having these coverages contribute an amount equivalent to the monthly cost for Part B Medicare and 10 percent of the monthly premium amount for the health, dental, and vision coverages. Required contributions for post-employment health care benefits are included as part of the School District's total contribution to the MPSERS pension plan discussed above.

NOTE 12: RISK MANAGEMENT

The School District is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers' compensation), as well as medical benefits to employees. The School District has purchased commercial insurance for medical benefits and participates in the MASB-SEG Property/Casualty risk pool for claims relating to property loss, torts, errors and omissions, and employee injuries. There has been no significant reduction in coverage, and settled claims have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The MASB-SEG Property/Casualty Pool, Inc. is a public entity risk pool (self-insurance pool) which provides for reinsurance by various insurance companies at various levels, depending on coverage. Should the pool experience significant losses in the aggregate; the School District may be required to pay additional monies to the pool. At present, the MASB/SET/SEG has not required additional funds, but rather has issued refunds based on experience gains over experience losses over the last few years.

NOTE 13: UNEMPLOYMENT TAXES

The School District is a reimbursing employer to the Michigan Unemployment Agency and, as such, is responsible to pay the Agency for those benefits paid and charged to its account. As of June 30, appropriate liabilities have been recorded for all claims paid by the Agency. However, no provision has been made for future payments that might result from claims in process or not filed.

NORTH ADAMS -JEROME PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS (CONCLUDED)
JUNE 30, 2006

NOTE 14: COMMITMENTS AND CONTINGENCIES

Grant Programs

The School District participates in numerous State and Federal grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustments by the grantor agencies; therefore, to the extent that the School District has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectibility of any related receivable at June 30, 2005 may be impaired. In the opinion of the School District, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants.

NOTE 15: SUBSEQUENT EVENT

After the year ended June 30, 2006, the following subsequent event occurred:

In August 2006, the School District received funds from the Michigan Municipal Bond Authority short-term cash flow borrowing program. The loan totaled \$525,000, with an interest rate of 3.68%, and future anticipated State Aid and other local funds are expected to be sufficient to cover this commitment.

REQUIRED SUPPLEMENTAL INFORMATION

NORTH ADAMS-JEROME PUBLIC SCHOOLS

REQUIRED SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND

YEAR ENDED JUNE 30, 2006

	ORIGINAL BUDGET	FINAL AMENDED BUDGET	ACTUAL	FINAL TO ACTUAL
REVENUES				
Local sources	\$ 354,692	\$ 379,305	\$ 373,518	\$ (5,787)
State sources	3,584,428	3,584,782	3,573,706	(11,076)
Federal sources	<u>105,700</u>	<u>103,012</u>	<u>102,150</u>	<u>(862)</u>
TOTAL REVENUES	<u>\$ 4,044,820</u>	<u>\$ 4,067,099</u>	<u>\$ 4,049,374</u>	<u>\$ (17,725)</u>
EXPENDITURES				
Instruction:				
Basic programs	\$ 2,153,734	\$ 2,150,841	\$ 2,205,068	\$ (54,227)
Added needs	505,695	551,646	536,978	14,668
Support Services:				
Pupil services	111,218	111,601	109,140	2,461
Instructional staff	98,590	101,615	106,736	(5,121)
General administration	153,405	163,797	162,437	1,360
School administration	289,763	301,326	299,793	1,533
Business services	52,904	50,492	50,492	
Operations and maintenance	325,563	319,169	321,120	(1,951)
Transportation	215,622	250,692	235,697	14,995
Capital outlay				
Other support services	<u></u>	<u></u>	<u>225</u>	<u>(225)</u>
TOTAL EXPENDITURES	<u>\$ 3,906,494</u>	<u>\$ 4,001,179</u>	<u>\$ 4,027,686</u>	<u>\$ (26,507)</u>
REVENUES OVER EXPENDITURES	<u>\$ 138,326</u>	<u>\$ 65,920</u>	<u>\$ 21,688</u>	<u>\$ (44,232)</u>
OTHER FINANCING SOURCES (USES)				
Operating transfers out	\$ (128,977)	\$ (128,977)	\$ (147,157)	\$ 18,180
Payments on capital lease			(9,180)	9,180
Capital lease proceeds	<u></u>	<u></u>	<u>41,350</u>	<u>(41,350)</u>
TOTAL OTHER FINANCING SOURCES AND (USES)	<u>\$ (128,977)</u>	<u>\$ (128,977)</u>	<u>\$ (114,987)</u>	<u>\$ 13,990</u>
NET CHANGE IN FUND BALANCES	\$ 9,349	\$ (63,057)	\$ (93,299)	\$ (30,242)
FUND BALANCES - BEGINNING	<u>257,983</u>	<u>257,983</u>	<u>257,983</u>	<u>257,983</u>
FUND BALANCES - ENDING	<u><u>\$ 267,332</u></u>	<u><u>\$ 194,926</u></u>	<u><u>\$ 164,684</u></u>	<u><u>\$ 227,741</u></u>

ADDITIONAL INFORMATION

NORTH ADAMS-JEROME PUBLIC SCHOOLS

COMBINING BALANCE SHEETS -
NONMAJOR GOVERNMENTAL FUNDS

JUNE 30, 2006

	2004 Debt Service Fund	2003 Capital Projects	2005 Capital Projects	Food Service Fund	Athletics Fund	Total Nonmajor Governmental Funds
ASSETS						
Cash	\$ 7,726	\$	\$ 21,322	\$ 5,701	\$	\$ 34,749
Due from agency funds					1,931	1,931
Due from other governmental units				2,288		2,288
Inventory				1,764		1,764
TOTAL ASSETS	<u>\$ 7,726</u>	<u>\$</u>	<u>\$ 21,322</u>	<u>\$ 9,753</u>	<u>\$ 1,931</u>	<u>\$ 40,732</u>
LIABILITIES						
Due to other funds	<u>\$ 4,576</u>	<u>\$</u>	<u>\$</u>	<u>\$ 5,000</u>	<u>\$ 1,931</u>	<u>\$ 11,507</u>
FUND BALANCES						
Reserved for inventory	\$	\$	\$	\$ 1,766	\$	\$ 1,766
Unreserved, undesignated	<u>3,150</u>	<u></u>	<u>21,322</u>	<u>2,987</u>	<u></u>	<u>27,459</u>
Total Fund Balances	<u>\$ 3,150</u>	<u>\$</u>	<u>\$ 21,322</u>	<u>\$ 4,753</u>	<u>\$</u>	<u>\$ 29,225</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 7,726</u>	<u>\$</u>	<u>\$ 21,322</u>	<u>\$ 9,753</u>	<u>\$ 1,931</u>	<u>\$ 40,732</u>

NORTH ADAMS-JEROME PUBLIC SCHOOLS

COMBINING STATEMENTS OF REVENUE, EXPENDITURES
AND CHANGES IN FUND BALANCES -
NONMAJOR GOVERNMENTAL FUNDS

YEAR ENDED JUNE 30, 2006

	2004 Debt Service Fund	2003 Capital Projects	2005 Capital Projects	Food Service Fund	Athletics Fund	Total Nonmajor Governmental Funds
REVENUE						
Food service sales	\$	\$	\$	\$ 85,643	\$	\$ 85,643
Athletic sales					44,743	44,743
State sources				16,029		16,029
Federal sources				86,651		86,651
Property taxes	57,343					57,343
Other	147	6				153
TOTAL REVENUE	\$ 57,490	\$ 6	\$	\$ 188,323	\$ 44,743	\$ 290,562
EXPENDITURES						
Food service	\$	\$	\$	\$ 197,348	\$	\$ 197,348
Athletics					179,215	179,215
Capital outlay		4,667	43,896	3,500		52,063
Debt principal	50,000					50,000
Debt interest and other	4,450					4,450
TOTAL EXPENDITURES	\$ 54,450	\$ 4,667	\$ 43,896	\$ 200,848	\$ 179,215	\$ 483,076
REVENUES OVER (UNDER) EXPENDITURES	\$ 3,040	\$ (4,661)	\$ (43,896)	\$ (12,525)	\$ (134,472)	\$ (192,514)
OTHER FINANCING SOURCES (USES)						
Transfers in	\$ 110	\$	\$ 5,218	\$ 12,575	\$ 134,472	\$ 152,375
Transfers out		(5,218)				(5,218)
Accrued interest on bonds						
Bond premium						
TOTAL OTHER FINANCING SOURCES (USES)	\$ 110	\$ (5,218)	\$ 5,218	\$ 12,575	\$ 134,472	\$ 147,157
NET CHANGE IN FUND BALANCES	\$ 3,150	\$ (9,879)	\$ (38,678)	\$ 50	\$	\$ (45,357)
FUND BALANCES - BEGINNING		9,879	60,000	4,703		74,582
FUND BALANCES -ENDING	\$ 3,150	\$	\$ 21,322	\$ 4,753	\$	\$ 29,225

OTHER REPORTS

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING
STANDARDS*

The Board of Education
North Adams-Jerome Public Schools
North Adams, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of North Adams-Jerome Public Schools as of and for the year ended June 30, 2006, which collectively comprise North Adams-Jerome Public Schools' basic financial statements, and have issued our report thereon dated August 18, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered North Adams-Jerome Public Schools' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted matters involving internal controls over financial reporting that we have reported to the management of North Adams-Jerome Public Schools, in a separate letter dated August 18, 2006.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether North Adams-Jerome Public Schools' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of North Adams-Jerome Public Schools, in a separate letter dated August 18, 2006.

This report is solely intended for the information and use of the School Board of Education, management of the School District, and state awarding agencies. However, this report is a matter of public record and its distribution is not limited.

Certified Public Accountants

Hillsdale, Michigan
August 18, 2006

MANAGEMENT LETTER

Board of Education
North Adams-Jerome Public Schools
North Adams, Michigan

We have recently completed our audit of the records of North Adams-Jerome Public Schools as of and for the year ended June 30, 2006. In connection with the audit, we became aware of matters that are opportunities for strengthening management's control and operating efficiency. These suggestions are a result of our evaluation of the internal control structure and our discussions with management.

PAYMENTS TO EMPLOYEES

COMMENT

During the CY, payments for additional work were made to the Business Manager. These payments were recorded through the accounts payable system rather than the payroll system.

RECOMMENDATION

We recommend that all payments made to employees for work performed are recorded through the payroll system.

STUDENT ACTIVITY INTERNAL CONTROL

COMMENT

The Business Manager is responsible for collecting, maintaining, and reconciling student activity monies. When student activity monies are collected, the Business Manager records the receipt and attaches it to the documentation provided; however, the depositor is not receiving a receipt.

RECOMMENDATION

Someone other than the Business Manager should be collecting the monies and issuing the depositor a receipt. The person collecting the money as well as the depositor should approve the receipt by initialing it. The Business Manager should then compile the ledger from the receipt book and reconcile it with the deposits.

BUDGET DOCUMENTATION IN MINUTES

COMMENT

The annual budget is presented to the board as a resolution. The board approves the budget by passage of the resolution; however, the amounts of the budget are not reflected in the motion or the board minutes. As a result, there is no assurance that the resolution attached to the board minutes is indeed the resolution which was passed by the board.

RECOMMENDATION

We recommend the board approve the School District budget using the total revenues and total expenses in the approval so the motion and board minutes reflect these amounts.

REPORTING OF ASSETS IN THE DISTRICT'S FINANCIAL STATEMENTS

COMMENT

Currently, the Albert Robert & Candy Jo Goodwin Scholarship accounts are not reported as assets in the District's financial statements.

RECOMMENDATION

We recommend the District include all assets in their accounting records and financial statements.

Certified Public Accountants

Hillsdale, Michigan
August 18, 2006

COMMUNICATION TO AUDIT COMMITTEE

To the Board of Education
North Adams-Jerome Public Schools
North Adams, Michigan

We have audited the financial statements of North Adams-Jerome Public Schools for the year ended June 30, 2006 and have issued our report thereon dated August 18, 2006. Professional standards require that we provide you with the following information related to our audit.

1. **Our Responsibility under U.S. Generally Accepted Auditing Standards**

As stated in our engagement letter dated May 10, 2006, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of the North Adams-Jerome Public Schools. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

2. **Significant Accounting Policies**

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by North Adams-Jerome Public Schools are described in Note 1 to the financial statements. We noted no transactions entered into by North Adams-Jerome Public Schools during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

3. **Accounting Estimates**

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of the significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was Management's estimate of the liability of the payout for employee compensated absences upon their retirement based on expected payout; the balance reported as \$12,478. We evaluated the key factors and assumptions used to develop the balance of compensated absences in determining that it is reasonable in relation to the financial statements taken as a whole.

4. **Audit Adjustments**

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the North Adams-Jerome Public Schools' financial reporting process (that is, cause future financial statements to be materially misstated). During the course of the audit, five journal entries were made to the North Adams-Jerome Public Schools' financial statements. In our judgment, the above referenced entries did not have a significant effect on the North Adams-Jerome Public Schools' financial reporting process.

5. **Disagreements with Management**

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

6. **Consultations with Other Independent Accountants**

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the North Adams-Jerome Public Schools' financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

7. **Issues Discussed Prior to Retention of Independent Auditors**

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the North Adams-Jerome Public Schools' auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

8. **Difficulties Encountered in Performing the Audit**

We encountered no significant difficulties in dealing with management in performing our audit.

This information is intended solely for the use of the Board of Education and management. It is not intended to be and should not be used by anyone other than these specified parties.

Certified Public Accountants

Hillsdale, Michigan
August 18, 2006